

ACTION

**AGENDA ITEM:** CLSA Interlibrary Loan, Universal Borrowing, Equal Access Program

**ISSUES TO COME BEFORE THE BOARD AT THIS MEETING:**

1. Policy for implementing the Pro Rating Requirement of the 2000/01 State Budget Act.
2. Additional 2001/02 TBR funding.

**RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD:** I move that the Library of California Board direct its Chief Executive Officer to withhold 10% of all CLSA ILL and Direct Loan Program reimbursement payments throughout the 2000/01 fiscal year and that, after determining the full State cost of the ILL & Direct Loan programs for the 2000/01 fiscal year, direct the Chief Executive Officer to pay the full amount remaining due to each participating library if sufficient funds remain in the 2000/01 CLSA ILL & Direct Loan Program appropriation, or to pro rate the final payment equitably if insufficient funds remain in the 2000/01 CLSA ILL & Direct Loan Program appropriation.

**RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD:** I move that the Library of California Board direct its Chief Executive Officer to seek additional 2001/02 local assistance funding in the amount of \$1,251,000 to eliminate the documented shortfall for qualifying CLSA Direct Loans and Interlibrary Loans.

1. Policy for Implementing the Pro Rating Requirement of the 2000/01 State Budget Act.

**BACKGROUND:**

By agreement with the Department of Finance the annual State appropriation for the CLSA Interlibrary Loan and Direct Loan Programs is determined by the Enrollment/Caseload/Population (ECP) process. This method was selected because the costs of the loan programs are driven by factors which are, essentially, beyond the control of local and State government. More specifically the costs are determined by the actual handling costs realized in libraries providing the service and the actual number of times the service is utilized by Californians. While the handling costs are to a certain extent, controllable by individual participating libraries, the statewide average cannot be easily controlled or predicted. The second factor, usage, can only be controlled by clearly inequitable means; that is, by denying services to individuals after a calculated maximum number of transactions has occurred.

For these reasons, the ILL and Direct Loan program appropriation in any single fiscal year, is based on estimates of the increase or decrease in handling cost, and projections of the levels of use, as well as the availability of funds. The program has been extremely successful and popular but its history has been marked by ten years of increasing shortfalls in the annual appropriation. A variety of temporary measures has been implemented to resolve these shortfall situations and several methods have been proposed to anticipate and avoid them, the most recent being the 2000/01 Budget Act language requiring the Board to pro rate reimbursement payments in the event of an insufficient appropriation.

The pro rating requirement states:

Should the funds appropriated in Schedule (c) be insufficient to fully cover all transactions under the Direct Loan and Interlibrary Loan programs of the California Library Services Act, funding shall be pro rated such that expenditures for the program are within the appropriation made in Schedule (c) of this item.

This requirement, being a more recent act of the Legislature supersedes the requirement that the State Board reimburse at the full rate adopted by the Board as approved by the Department of Finance. However, it does not set aside the provision of Education Code Section 18703(f) to reimburse participating libraries equitably.

In August 1999 the Board adopted the method for implementing the pro rating requirement by withholding a percentage of each valid claim throughout the course of the fiscal year, paying the remainder due, or a pro rated portion of the remainder due, after the close of the fiscal year.

The actual experience of the 1999/2000 fiscal year is summarized below:

Fiscal Year Full Reimbursement Cost	
at Department of Finance approved rates	\$9,117,192
ILL & Direct Loan Program Appropriation	\$9,092,000
Pro Rated Payment	99.7%

Final payments to reimburse all participants at 99.7% of the full reimbursement amount (at Department of Finance approval rates) are currently being processed.

Based on current projections of transactions for the 2000/01 fiscal year and the reimbursement rates, as approved by the State Department of Finance for fiscal year 2000/01, the full State cost of the CLSA ILL & Direct Loan Program is estimated to be:

Eligible Public Library Interlibrary Loans	1,315,600 @ 3.21= \$4,223,076
Net Imbalance Direct Loans	11,160,000 @ .63 = \$7,030,800
Estimated Total Program Cost	= \$11,253,876
2000/01 State Appropriation	= \$ 10,894,000
ILL and Direct Loan Program Shortfall	= \$ 359,876

During the 1999/2000 fiscal year, at the direction of the State Board, the Chief Executive Officer withheld 20% of each participant's payments, making a final pro rated payment after all claims had been received and actual program costs were known. It is recommended that, for the 2000/01 fiscal year, the same method of implementing the pro rata payment provision of the 2000/01 State Budget Act be adopted.

If projected transaction levels are actually realized the 2000/01 CLSA ILL & Direct Loan program appropriation would fall short of being sufficient to pay the full reimbursable cost of the program by an estimated \$359,876, or about 3% of the estimated total program cost. Due to the varying levels of increases and decreases in transactions over the last several years, staff is recommending that a larger margin for transaction growth be built into the percentage withheld, and that 10% of each payment be withheld during the course of the 2000/01 fiscal year.

## 2. Additional 2001/02 TBR funding

### BACKGROUND:

The shortfall in the ILL and Direct Loan program funding that has been building over the last ten years (see Exhibit A) received some relief with this year's budget augmentation.

Based on the current (2000/01) program budget and 1999/2000 Board-adopted rates, the program shortfall has been reduced to 11% of the current program budget compared to last year's shortfall of 34%. In June the Board took action to seek additional funding through a Budget Change Proposal (BCP) process. This effort does not replace the current ECP process used each Spring to recommend changes to the program baseline to the Department of Finance.

The proposed amount, \$1,251,000, is based on the rates adopted by the Board in May, 1999 and the actual workload level documented for 1999/2000. The request is based on the last rate adopted by the Board through the cost determination process recognized by DoF and for a fiscal year for which actual (not projected) workload statistics are available. See chart below.

1999/2000 Transaction Workloads		1999/2000 Board Adopted Rate		Actual TBR Program Costs
1,187,182	X	3.82	=	\$4,535,035.24
10,424,950	X	.73	=	<u>\$7,610,213.50</u>
				\$12,145,248.74
State Appropriation (2000/01)				\$10,894,000.00
TBR Program Shortfall				\$1,251,248.74

### **GENERAL OVERALL PROGRAM UPDATES:**

**CURRENT STATUS:** CLSA reimbursed loan services continue throughout the state with 176 public libraries participating in the 2000/01 fiscal year (See Exhibit B). In April the LoC Board adopted 2000/01 reimbursement rates as displayed below and, as required by the Act, submitted those rates to the Department of Finance for their approval.

#### **2000/01 Loan Program Reimbursement Rates as Determined by the Board**

Interlibrary Loan (per eligible transaction)	\$4.14
Direct Loan (per net imbalance transaction)	\$ .77

The State Department of Finance has not approved the 2000/01 reimbursement rates as adopted by the Board in April of this year. Instead the State Department of Finance approved, through the BCP process, an augmentation to the 2000/01 ILL and Direct Loan baseline budget of fifty percent (50%) of the total requested for increased costs (See Exhibit C). The 2000/01 rates, as approved by Department of Finance are:

Interlibrary Loan (per eligible transaction)	\$3.21
Direct Loan (per net imbalance transaction)	\$ .63

The enrollment/caseload population (ECP) process, which was submitted in April 2000, was not be used to adjust the ILL and Direct Loan Program appropriation. Through the Budget Change Proposal (BCP) process, the 2000/01 Budget Act included a \$1,802,000 increase over the previous year appropriation for the CLSA loan programs. Of the \$1.802 million, \$477,000 was provided to fund transaction increases for CLSA loan services; and \$1,325,000 was included to fund increased service costs, which raised the reimbursement to the above mentioned rates. This is the first year, in ten years, that DoF has recognized the need to increase costs associated with this program. If transactions occur at the rate projected for fiscal year 2000/01, (1,315,600 eligible

interlibrary loans excluding non-public library loans; 11,160,000 net imbalance direct loans) the appropriation of \$10,894,000 will be insufficient to pay the full cost of the program at the Department of Finance approved rates by nearly \$359,876.

**PROGRAM TRENDS:** Final transaction counts for the 1999/2000 fiscal year and projected totals for 2000/01 are displayed below.

<b>1999/2000 LOAN ACTIVITY</b>						
	1 <sup>st</sup> Quarter <u>Actual</u>	2 <sup>nd</sup> Quarter <u>Actual</u>	3 <sup>rd</sup> Quarter <u>Actual</u>	4 <sup>th</sup> Quarter <u>Actual</u>	1999/2000 Total <u>Actual</u>	2000/01 Total <u>Projected</u>
ILL Reimbursable Transactions	342,370	286,166	291,496	267,150	1,187,182	1,315,600
Direct Loans: Total	6,283,401	5,518,975	6,390,865	6,246,786	24,440,027	24,950,000
Direct Loans: Net Imbalance	2,656,915	2,324,198	2,761,416	2,682,421	10,424,950	11,160,000

**RELATED ISSUE TO COME BEFORE THE BOARD IN THE FUTURE:** Updates on actual and revised projections of TBR Program levels and costs.

Relevant Committee: Access Services  
Staff Liaison: Sandy Habbestad